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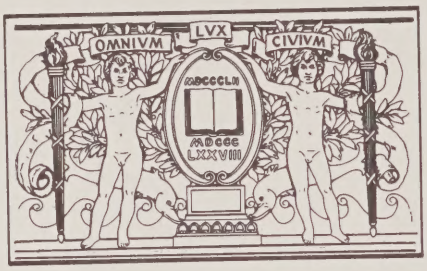

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BOSTON HOUSING CHALLENGES AND OPPORTUNITIES

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Boston Redevelopment Authority
Policy Development and Research

May, 1987

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BOSTON HOUSING CHALLENGES AND OPPORTUNITIES
5/06

Introduction

An unexpectedly severe housing shortage is emerging in Boston as growth in the number of households outraces housing construction and conversions of existing stock into more dwelling units. Throughout eastern Massachusetts, growth in regional demand has caused housing prices to soar. Additionally, Boston's revitalization is attracting even more households. While this turnaround is a boon for many, it harms others.

The surge in demand and resulting tight housing market have restricted choice, currently locking many households into existing living situations, even as they enter new lifestages and their needs change. While all income levels and types of households are affected, tenants are being hit harder than homeowners, especially the elderly, the poor, young singles and newlyweds, along with growing families, minority groups, and those with special housing needs.

The strong housing market is not the only force transforming Boston's residential neighborhoods. The city continues to attract many types of new residents, including immigrants from the Carribean and the Far East. By 1985, Boston's proportion of white residents had declined to 62 percent of the household population, from 69 percent in 1980. Also, households composed of single persons and unrelated individuals had emerged as the dominant household type. The city increasingly attracts and holds those who were between 15 and 34 years old in 1980 -- the baby boom generation.

Housing is a regional issue which cannot be resolved without all cities and towns in Massachusetts acting together and committing themselves to creating more housing choices. Acting alone, Boston can achieve relatively little. A changing and maturing population mix within the region, with many seeking to live in smaller, higher quality dwellings, introduces demand for different types of new housing, along with new opportunities to adapt existing stock to meet these emerging housing needs.

The primary response of Boston's housing market to date has been a record number of condominium conversions, which adds little to the housing total and reduces the

number of affordable housing units. Indeed, the pace of conversions dwarfs the city's efforts to produce more affordable units. Since 1980, when there was a total of 4,531, the stock of condominiums has nearly sextupled.

By the end of 1986, Boston had over 26,000 condominiums, more than one in ten of all Boston's housing units -- and most of these resulted from the conversion of existing rental property. About 45 percent of all condominiums have been created since the beginning of 1984, and of these, less than 5 percent were new or previously nonresidential.

Tracked by planning district, the market for condominium tenure has gradually spread from Back Bay/Beacon Hill and the areas near downtown to virtually all neighborhoods except for those with significant numbers of lower income, non-white households. The conversion process, which affected primarily multi-family structures of four or more units prior to 1984, has now turned to converting triple-deckers as well, which have long been the mainstay of Boston's lower cost housing supply.

Despite an unusual amount of diverse public effort and subsidies, only one fifth of Boston's total housing stock is publicly assisted. Most of Boston's affordable housing still lies in its many private structures, exemplified by the triple-deckers. The majority of these are still owned mortgage free by long-term owners who acquired them in a bygone era when triple-deckers costing less than $24,000 could be bought with mortgages at interest rates between 4 and 6 percent. These affordable homes are now a hold over from the past, opportunities that can be prolonged but that will surely vanish as these structures come up for sale at prices often based on their condominium coversion potential.

Ironically, a lack of lower cost alternatives has also locked many long-term owners into staying in their homes, and many tenants in turn remain dependent on them. However, these owners are a dying breed which cannot continue owning these structures indefinitely.

These private structures are now worth considerably more as condominiums, and the market prices them accordingly. Anyone acquiring them today as investments can no longer provide affordable rental housing. At the same time, many of the newcomers competing to live in this stock actually prefer owning their units because for them the

carrying costs are not much higher than the rents that continue to rise in preferred locations. A leveraged homeownership investment gives them tax shelter and the promise of sizable gains in equity, whereas rent receipts provide only physical shelter.

The federal tax incentives remaining after 1986 tax reform still reward homeownership on the part of the more affluent, amplifying the regional market forces now transforming Boston. However, to help meet newly emerging housing needs, these forces could also be harnessed through a transfer tax or linked sales, to encourage such new housing models as shared living, and mutual, cooperative ownership. Even owning a one floor condo unit in a converted triple-decker can be a form of affordable housing.

Recent Housing Changes in the City of Boston

In 1960, Boston had nearly 240,000 dwellings units.[1] However, a pattern of housing disinvestment and abandonment had set in during the 1950s. This continued during the 1960s, spurring a sharp decline in the pace of private development. By 1970, Boston had only 232,200 units.

Since the 1950s, public housing, urban renewal, and its successors -- the subsidized mortgage, rental assistance, and Community Development Block Grant programs -- produced many assisted housing units, while the private market built whole new suburbs. Despite much urban demolition, these market imbalances increased the glut of low quality, privately held units. Abandonment and excess supply in the city allowed much private housing to deteriorate but remain affordable. In the slack urban housing market of the 1970s, Boston's rents and values barely kept pace with increases in the Consumer Price Index.

Nevertheless, during the 1970s, new patterns began to emerge. Many marginal structures were rehabilitated under public programs as policy shifted away from demolition. After 1980, private market forces began reclaiming vacant units, while subsidies encouraged new development. Thus by 1985, Boston had 249,200 dwelling units, slightly more than it had a quarter of a century earlier.

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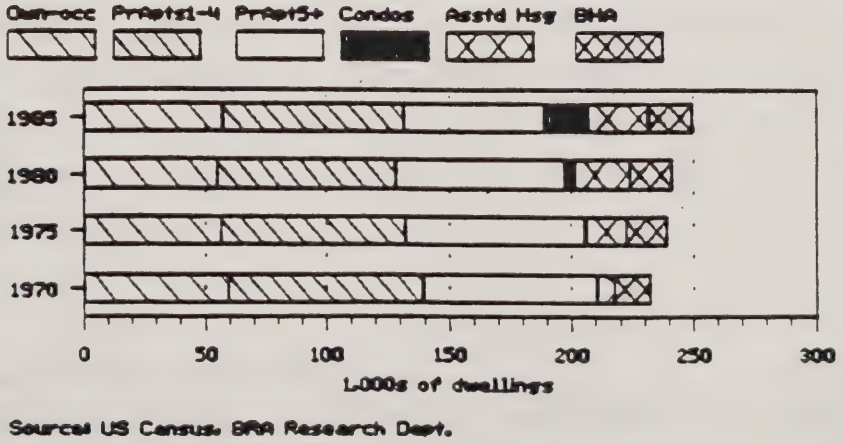
[1] *Boston's Changing Housing Patterns, 1970 - 1985*, Rolf Goetze BRA Research Department, November 1986, assembled the U.S. Census and the BRA/NDEA Household Survey data from which the basic information and graphic figures in this paper are drawn.

The city's net housing growth of 17,000 units between 1970 and 1985 resulted from 22,800 new units and 4,800 accessory apartment conversions, offset by 10,600 demolitions. The new units were mainly assisted, whereas the conversions were almost entirely private. These totals also include a fluctuating number of vacant units which went out of service during the 1970s and have recently begun to be put back into use.

Tracking the shifts in the composition of housing from 1970 to 1985 highlights important changes: a surge in condominium conversions and a corresponding loss in private rental apartments, substantial growth in the publicly subsidized, nonprofit housing inventory, and a modest decrease in the total number of units in the private market. Although owner-occupied units in the 1-4 family stock declined in number through 1980, this has increasingly been offset by recent condominium conversions in multi-family stock. Also, there has been a rising tendency to create accessory or so-called in-law apartments within existing 1-4 unit structures.

By 1985, the rate of loss of private rentals in multi-family structures was accelerating due to their conversion into condominiums, a newer form of resident tenure. The 17,300 condominium conversions between 1970 and 1985 means that about one quarter of all the private, multi-family rental units that were in existence at the end of 1970 had been converted.[2] See Figure A.

Figure A: Boston's Housing Stock Composition: 1970, 1975, 1980 and 1985



[2] As of December 31,1986, the stock of condominiums had increased by yet another 9,000, bringing the city total to 26,200 or over 10 percent of its entire housing stock.

Recently, with the dwindling of housing subsidies, new construction slowed to half the pace of a decade earlier. Between 1980 and 1985, the city gained a total of about 5,600 structurally new units: only 400 units were public housing; 800 were newly built condominiums; 1,100 were in town-house-type developments; and 3,400 were multi-family rentals -- 1,900 private and 1,500 assisted.

As the rate of condo conversion accelerated, it took nearly 13,000 existing private market apartments out of the rental stock in just the five years between 1980 and 1985. Also, some 4,400 accessory apartments were produced during this period through internal conversions, and in addition, as the 1-4 family vacancy rate declined from 7 to 4 percent, 4,400 of the 10,000 units vacant in 1980 were fixed up and re-occupied.

In 1985, over half the housing units in the city, including condominiums, were under a resident-owned roof. Over four fifths of the single and duplex buildings, and more than two thirds of the triples and quads were resident-owned. Altogether, 52.6 percent of all housing units were still in privately owned, 1-4 unit structures.

As these triple-deckers and similar structures come on the market at today's prices, the resulting increase in financing costs sharply raises rents by as much as $200 monthly per unit, typically from $225 to $425 per month. Meanwhile, private development has recently resumed, but the units added are at price levels well above what most moderate-income residents can afford.

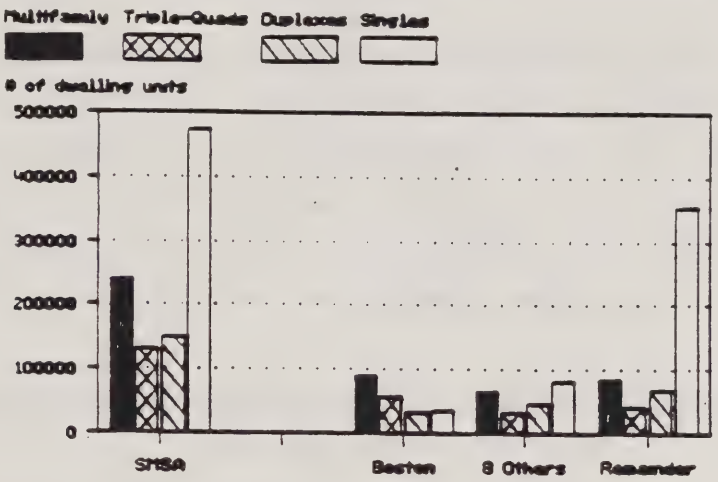
While Boston's current and anticipated housing production rate has recently risen, it still falls far short of the amount generally in demand, and the types of units most needed, namely lower cost rentals. As a result, housing values and rents continue to increase at record rates. The current production pipeline holds little promise of any significant increase in the rate of housing additions over the next few years which might ease demand pressure.

Boston Within its Metropolitan Context

The Boston Standard Metropolitan Statistical Area (SMSA) had about 1 million housing units in 1980, according to the U.S. Census, with 22 percent of these in the city of Boston, another 23 percent in the eight other cities with populations over 50,000, and 55 percent in the suburban remainder. The eight cities are Cambridge, Lynn, Malden, Medford, Newton, Quincy, Somerville, and Waltham.

Overall, nearly half the metropolitan stock was in singles, and another quarter was in structures with five or more units in 1980. Boston provided over two fifths of the region's multi-family dwellings, whereas the suburban remainder had nearly three fourths of all the singles. See Figure B.

Figure B: Distribution of Boston SMSA Housing by Stock Type and Location, 1980



During the 1970s, the suburban housing stock grew significantly. Over 42 percent of the multi-family units and 11 percent of the single-family units standing in 1980 were created in the prior decade. In Boston, 15 percent of all multi-family units and 3 percent of the singles in 1980 were developed in that period.

Comparing the early 1970s with the latter part of that same decade, however, reveals that the pace of housing development in all locations dropped significantly, by 35 percent in the suburbs, 30 percent in the eight other cities, but only by 25 percent in Boston because so much production was subsidized. All informal indications confirm that this general decline in the rate of production continued into the early 1980s due to high interest rates. Only in the past few years, as interest rates declined, have private housing starts increased.

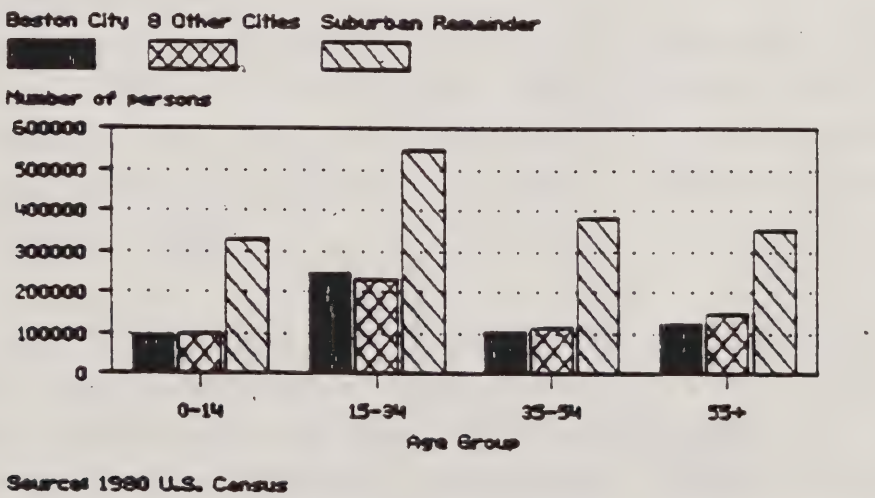
The SMSA had over 2.75 million people in 1980, settled into the one million housing units. Due in part to a slightly larger suburban household size, 2.95 persons per dwelling compared to 2.57 in Boston, the suburbs sheltered nearly three fifths of the region's population, whereas one fifth was in Boston and another fifth was shared among the eight other major cities. These relative proportions still held true in 1985.

Viewing the population by broad age groups helps understand their housing needs. Children aged 0 to 14, along with their 35 to 54 year old parents, dominate the suburbs, but many young adult persons aged 15 to 34 are living away from home in urban households composed of unrelated individuals. While persons aged 35 to 54 are in their parenting years, more now prefer to remain single, or marry and choose not to have children. Those at 55 and more years of age are the mature and elderly; this group increasingly includes affluent, empty-nester households.

Throughout the region, more individuals were between the ages of 15 and 34 than any other age group in 1980. These people are now in their twenties and thirties, the age of forming new households. Also by 1980, better health and medical care were already swelling the ranks of those over 55 years of age. Figure C shows the area's population by these age groups, at the same time differentiating Boston from the eight other cities in the SMSA, as well as from the suburban remainder.

Figure C: Age Distribution of the Boston SMSA Population by Location, 1980:

Total population, 2,763,000.

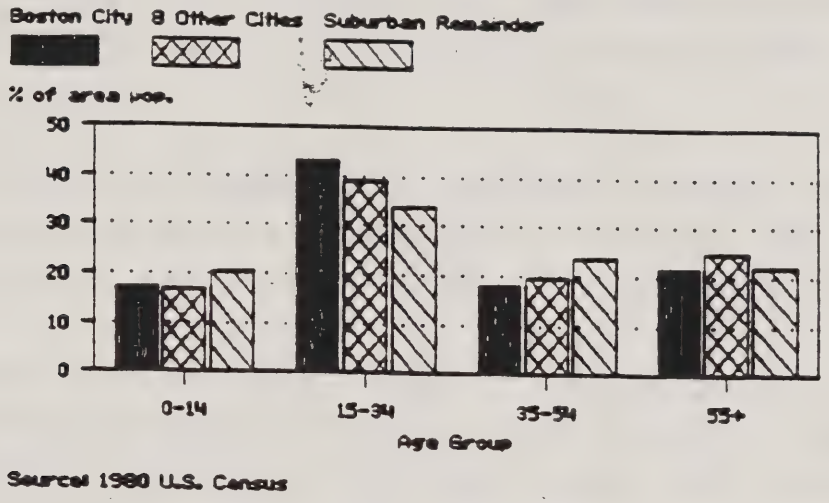


Source: 1980 U.S. Census

In age composition, Boston outdrew the eight other cities in the proportion of its population 15 to 34 years old, whereas the other cities exceeded both the suburbs and Boston in the percentage of people over 55 years of age, as shown in Figure D. Boston clearly specializes in housing individuals now in their twenties and thirties, the very ones devising new living patterns.

Figure D: Age Distribution of the Boston SMSA Population, 1980

(in percent)



Source: 1980 U.S. Census

Boston's Changing Demographics

During the 1970s there were fundamental shifts in the composition of households residing in Boston. Households with children under 18 declined from 32 percent in 1970 to 27 percent in 1980. In 1970, three fourths of these child-rearing households had two parents; by 1980, the proportion was down to 58 percent, and the balance were in single-parent homes.

Shifts among three basic types of households residing in Boston reveal changing housing needs. These three types are traditional husband-wife families (with or without children), single-parent families, and households comprised of unrelated individuals living jointly or individuals living alone. The shifts were quite pronounced between the 1970 and 1980 census, but it seems the 1980 pattern has stabilized in recent years.[3]

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[3] To gain insight into these dynamics, the BRA prepared a detailed household survey containing over 100 questions on topics including employment, demographics, income, geographic mobility, housing and home buying. A sample of over 1,500 households, carefully drawn to reflect Boston's population, was surveyed in the spring of 1980, to parallel the 1980 U.S. Census. In 1985, exactly five years later, the same methodology was employed again to update and identify neighborhood changes. Done this time in conjunction with the NDEA, it is referred to as the BRA/NDEA Household Survey. Since persons residing in group quarters, including dormitories, lodging houses and the like, were not surveyed, they are outside the scope of this discussion.

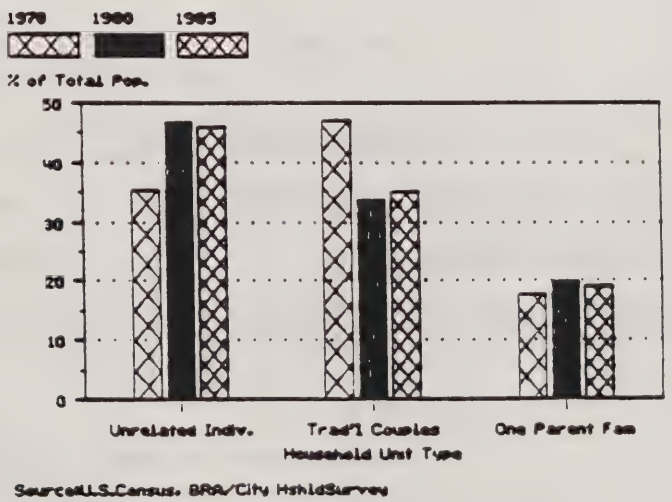
Traditional couples are husband-wife families, with or without children, and include a few households housing other relatives as well. Such households declined from 47 percent in 1970, to 33 percent in 1980, and stood around 35 percent of all households in 1985.

In 1970, 35 percent of all households were comprised of unrelated individuals -- those living alone or sharing housing with roommates. By 1980, their share had risen to 47 percent, and in 1985 it was around 46 percent, nearly half the households in the city.

The overall proportion of one parent families -- head, no spouse, living with children or others -- has risen somewhat in the past fifteen years from a little over one in six in 1970 towards one in five in 1985. There has also been a tendency towards doubling up, as relatives or others joined to live in these households. This category includes both female-headed households on welfare as well as separated, self-supporting single-parent families. See Figure E.

Figure E: Changing Composition of Boston's Household Population, 1970 - 1980

(in percent)

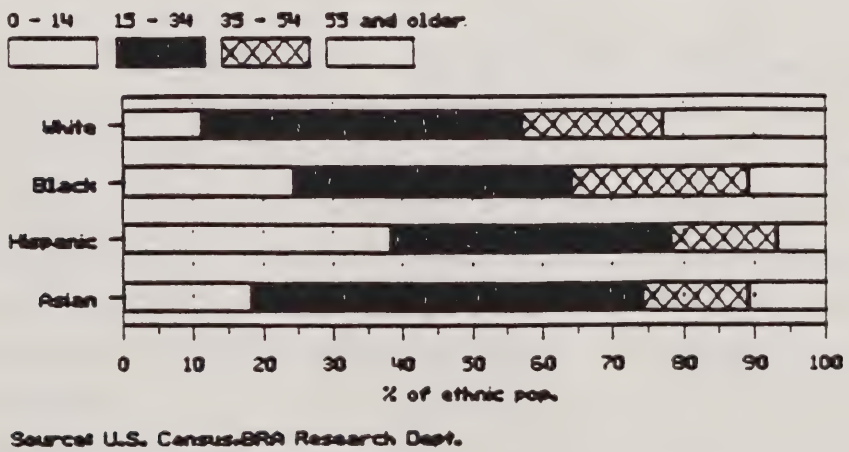


Boston is increasingly a city housing young adults. The percent of children between 0 and 15 years of age declined from 25 percent in 1960 to 17 percent in 1985, or from one in four to one in six, while the population share of those between 15 and 35 years old increased by over one half, to the point where 45 percent of the persons in Boston were in this age group in 1985. The decline in persons between 35 and 55 was recently reversed; 20 percent are now in this age group. The recent decline in persons over 55 meant that only 18 percent were in this group.

During this five year period, the youth of the city increasingly were minority, while the older population remained largely white. In 1985, the Hispanic and black population was concentrated in the younger age groups under 15, whereas 56 percent of the Asians and 46 percent of the whites were between the age of 15 and 35. Among whites, one in seven was over 65 years of age. See Figure F. The age distributions indicate that Hispanic and black families need proportionately more family housing and that white needs tend towards housing suited for older, smaller households. To understand this better requires shifting attention to the neighborhood level.

Figure F: Age and Ethnic/Racial Composition of Boston's 1985 Household Population

(in percent)



Source: U.S. Census-BRA Research Dept.

Boston's Sixteen Planning Districts in 1985

Boston's neighborhoods remain quite diverse in regard to their ethnic/racial composition, age mix, and housing stock types. For the city as a whole, only 27 percent of the 1985 households had children under 18. In some neighborhoods, notably Back Bay/Beacon Hill and Fenway/Kenmore, fewer than 5 percent of the households had any children, and only in Mattapan/Franklin and Roxbury did more than 40 percent of the households have any children under 18. In all districts except Mattapan/Franklin and the South End, the proportion of households with children declined during the 1970s.

Meanwhile, those over 55 years of age have come to stand out in East Boston, South Boston, Central, West Roxbury, and Hyde Park. Many of these older residents would like to move into housing more suited to their changing needs, whereas others wish to remain in their homes, living independently as long as possible.

Married couples, with or without children, are the households traditionally interested in the low-rise housing that includes singles, duplexes, and triple-deckers. They remain a majority only in Hyde Park, Roslindale and West Roxbury, whereas in Fenway/Kenmore, they comprise only 10 percent of all households. Between 1980 and 1985, East Boston, Allston/Brighton, and, to a lesser degree, Dorchester and Mattapan/Franklin, had experienced major declines in traditional couples, with or without children.

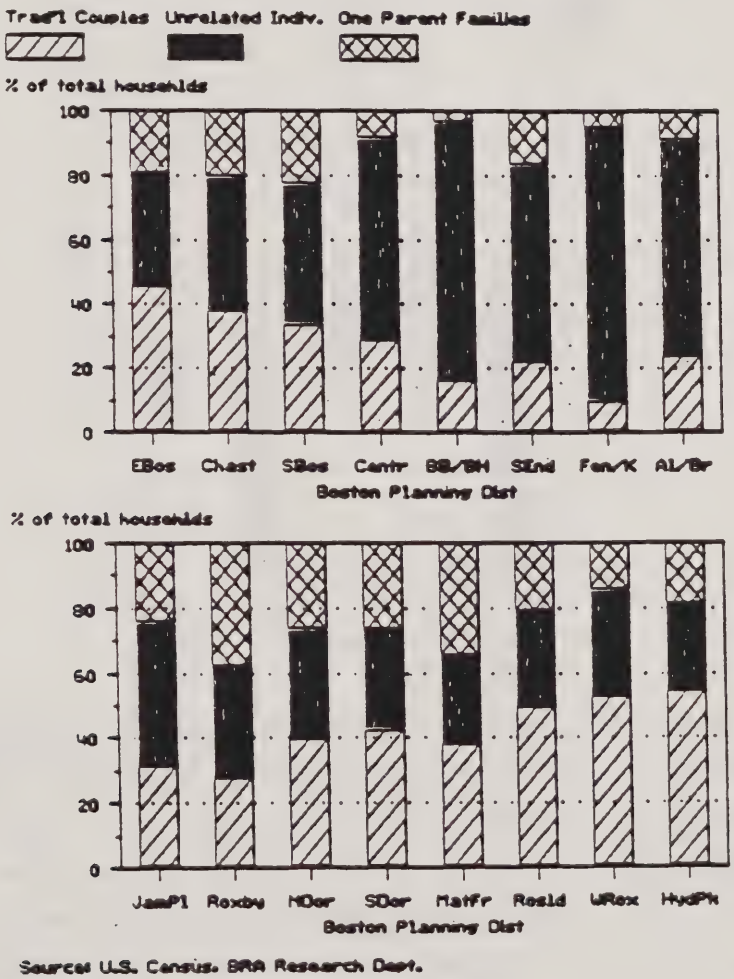
Households made up of unrelated individuals and single persons generally prefer apartments in multi-family buildings and condominiums. Such households dominate Back Bay/Beacon Hill and Fenway/Kenmore, accounting for over 80 percent of the households in these districts, and Allston/Brighton, with about 70 percent. Their presence has also increased sharply in the South End, North Dorchester/Uphams Corner, and Jamaica Plain. In the Central planning district, on the other hand, their number appears to have declined recently, while the number of couples with or without children has increased.

Households headed by single people, with children and/or other relations, comprise a mix of single-parent households dependent on welfare, and self-supporting mothers and fathers with children. In areas where the former are most dominant -- Mattapan/Franklin, Roxbury, and South and North Dorchester -- these tend to be the households most in need of assisted housing. See Figure G.

Six planning districts were over 90 percent white in 1985: East Boston, Charlestown, South Boston, Back Bay/Beacon Hill, Roslindale and West Roxbury. At the other extreme, Roxbury dropped to 7 percent white, and Mattapan/Franklin to 8 percent. South Dorchester/Fields Corner decreased from 75 percent white in 1980 to 51 percent in 1985.

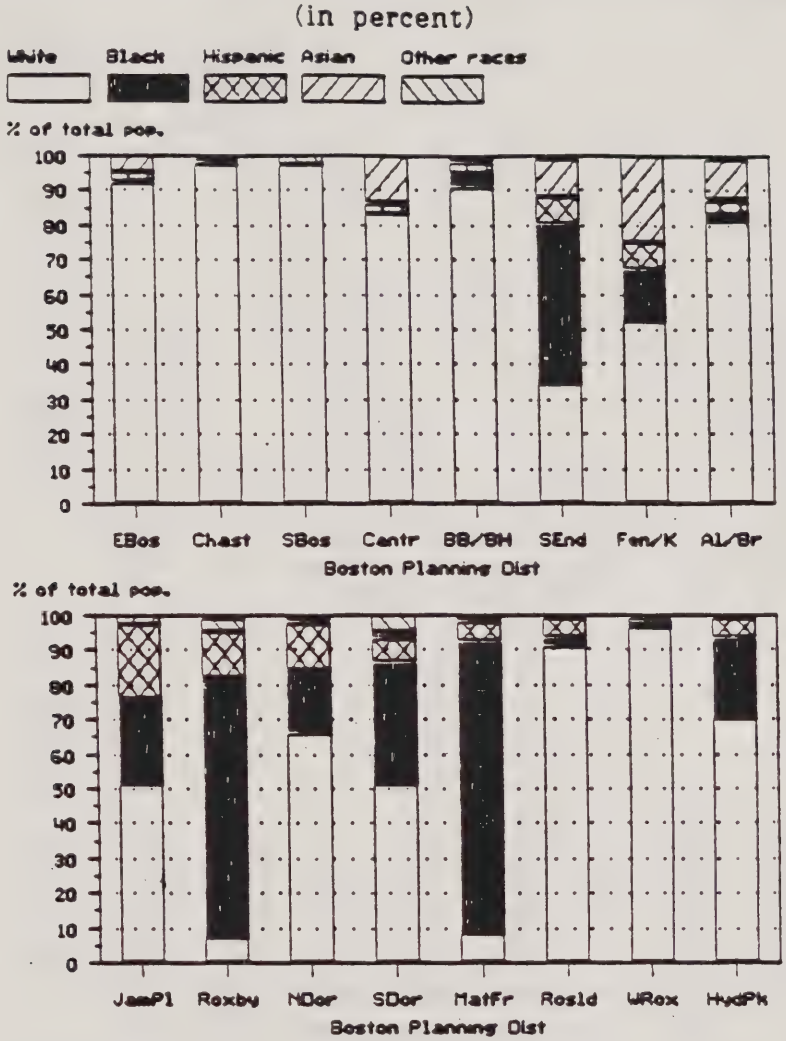
Figure G: 1980 Household Composition of Boston's Planning Districts

(in percent)



The distribution of blacks is generally understood, but the significant proportion of Hispanics in Jamaica Plain, Roxbury, and North Dorchester/Uphams Corner is less well known. Many Asians reside in the Central district, as well as the South End, Fenway/ Kenmore, Allston/Brighton, and, to a lesser extent, East Boston neighborhoods. In many areas, the increase in immigrants and minorities has taken place in the neighborhoods providing lower cost, larger, dwelling units, making condominium conversions less likely there. See Figure H.

Figure H: Racial/Ethnic Composition of Boston's Planning Districts in 1985

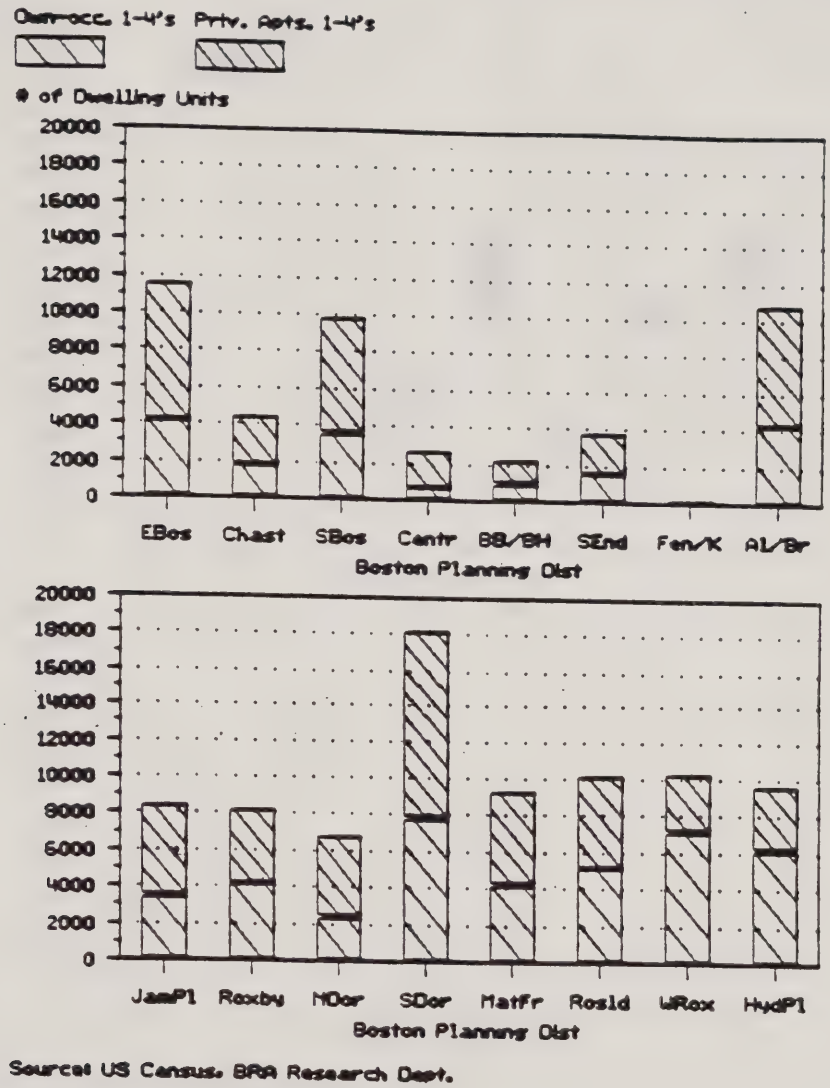


The Housing Stock Composition of Boston's Planning Districts in 1985.

The housing mix in the city's neighborhoods was also quite diverse. Fenway/Kenmore had almost no units in 1-4 family structures, and Back Bay/Beacon Hill and the Central district had relatively few. These are the districts where there were few children, while young, unrelated individuals dominate. In many districts, however, the 1-4 unit stock provided most of the units; South Dorchester clearly lead in the total number of such units, and East Boston, Allston/Brighton, and the more outlying districts each provided many such units. See Figure I.

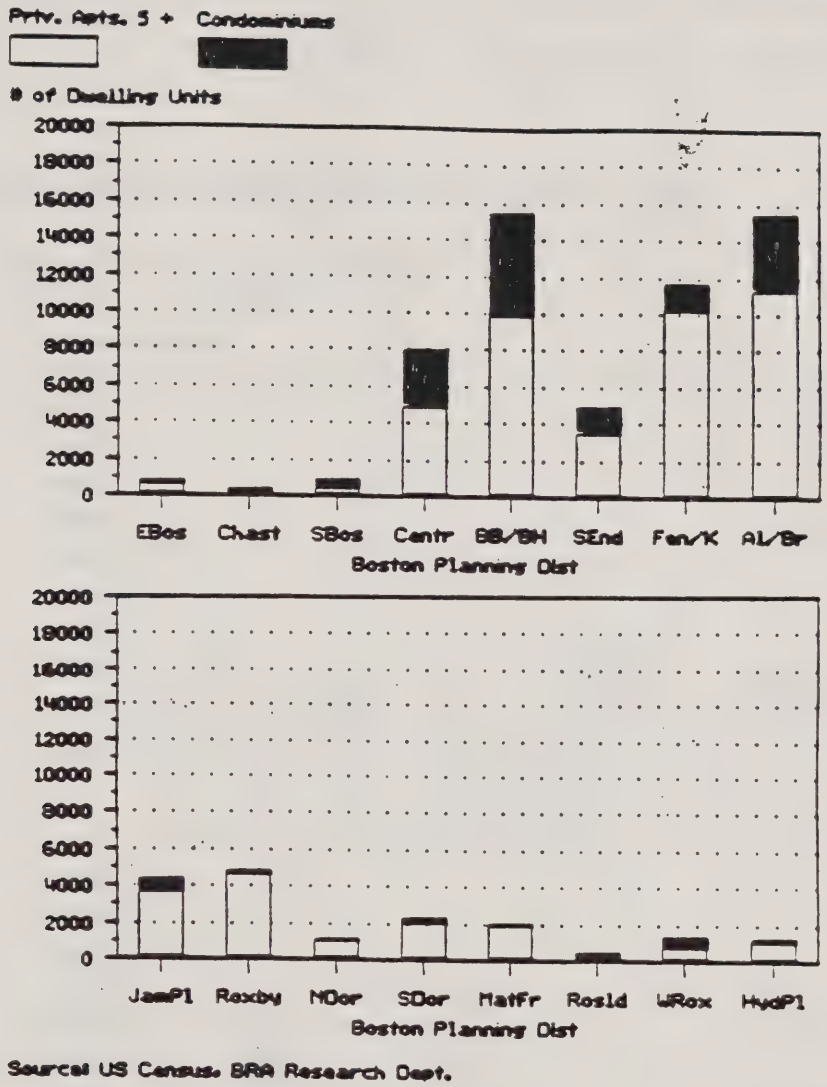
In Hyde Park, Roslindale, and East Boston, the total percentage of units in the 1-4 unit stock was over 80 percent. The proportion of this stock that was resident-owned ranges from quite low in the Central district to relatively high in West Roxbury and Hyde Park.

Figure I: 1-4 Unit Stock Distribution in Boston's Planning Districts, 1985



The private, multi-family housing stock of five or more units per structure was quite concentrated. Allston/Brighton, Back Bay/Beacon Hill, Fenway/Kenmore, the Central district, and the South End provided most of this stock. Although some of the condominiums conversions had been sold to prior resident tenants, the relative proportions of this stock in each area that had been converted to condominiums generally reflect the influx of a younger, more affluent population. The bulk of the city's condominiums were in Back Bay/Beacon Hill, Allston/Brighton, and the Central district. The distribution of remaining private, multi-family stock, seen in Figure J, also reveals where the potential of further multi-unit condo conversions is greatest.

Figure J: Private Multi-family Housing in Boston's Planning Districts, 1985

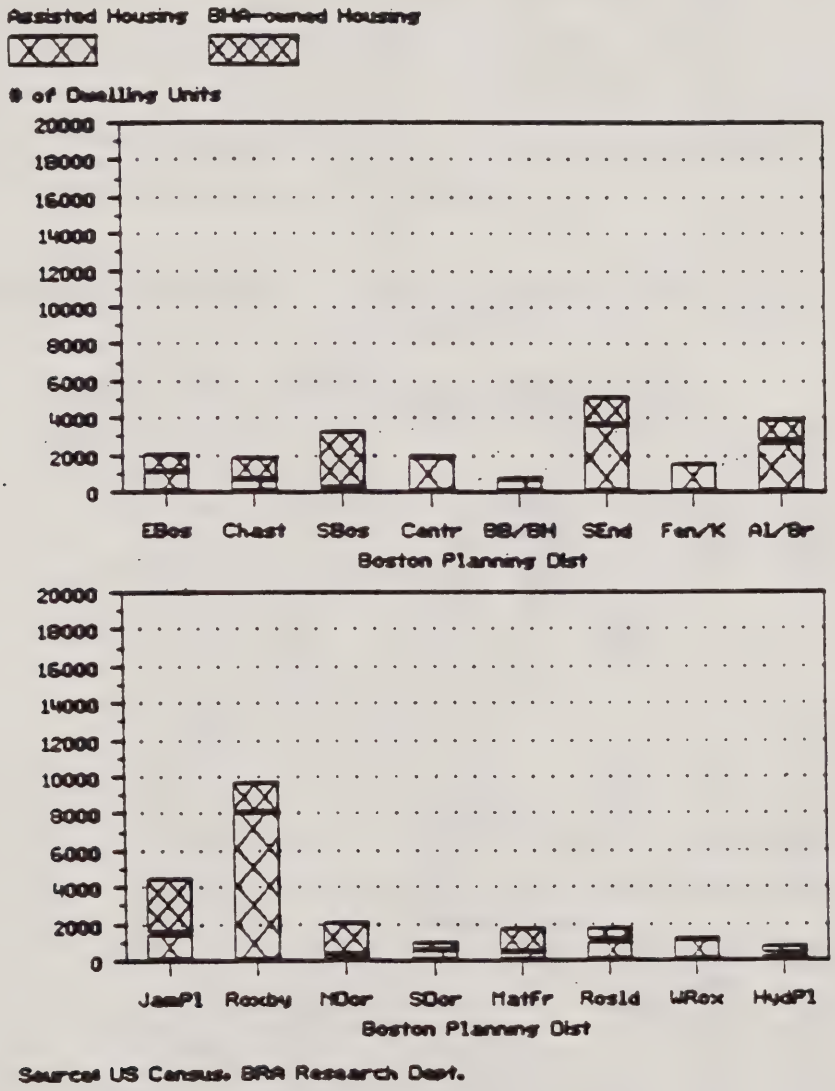


Both assisted housing and the stock owned by the Boston Housing Authority are fairly recent housing, developed after World War II. This contrasts with the rest of the stock, most of which tends to be much older, predating the depression of the 1930s. After World War II, large public housing projects, owned and managed by the Boston Housing Authority, were developed in North Dorchester (Columbia Point), South Boston, the South End, Charlestown, and Jamaica Plain.

A substantial amount of privately built, assisted housing followed in the late 1960s and 1970s, created both through new construction and rehabilitation by nonprofit

developers, mainly under the federal Sec 221(d)(3), 236, Section 8, as well as the state housing assistance programs run by the Massachusetts Home Mortgage Finance Agency (MHFA) and the Executive Office of Communities and Development (EOCD). Roxbury, the South End, and Allston/Brighton contain most of these more recent assisted units. See Figure K.

Figure K: Assisted Housing in Boston's Planning Districts, 1985



Source: US Census, BRA Research Dept.

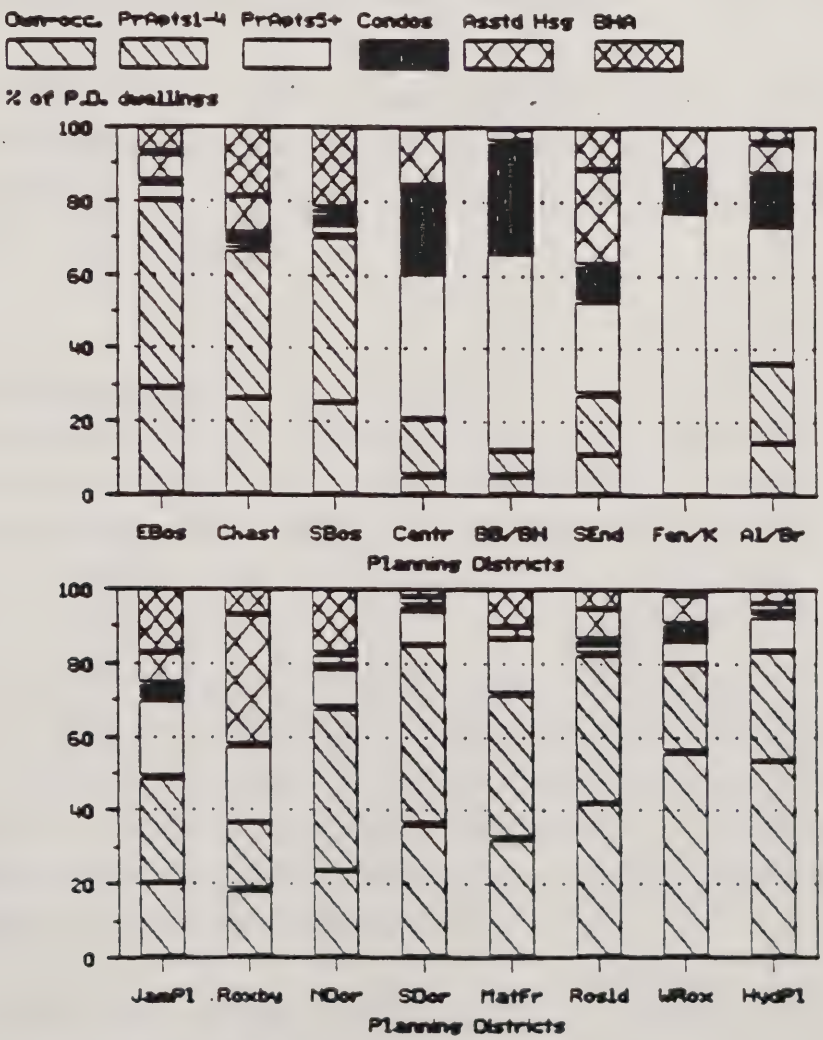
Many challenges now confront Boston's public and assisted housing. In 1985, of the more than 18,000 total public housing units, over one quarter were not in use; 2,600 were vacant, and over 2,000 more were boarded up as uninhabitable. Restoring these to the usable housing stock is a very costly process requiring public modernization allocations which have become harder to obtain.

Less is known about vacancies in the assisted stock, but virtually none of the units in such buildings are boarded up. However, in recent years a considerable number of these developments were in serious financial straights, not meeting their mortgage payments.

Although Allston/Brighton had almost five times as many dwelling units as Charlestown, it is useful to view the mix of the total stock within these and the other districts on a percentage basis. The private 1-4s, with the downward sloping diagonals, provide two thirds to five sixths of the housing stock in the majority of the districts. Until these structures come up for sale, they continue to provide the bulk of the city's affordable housing. See Figure L.

Figure L: Housing Stock Composition of Boston's Planning Districts, 1985

(in percent)



Source: US Census, BRA Research Dept.

Multi-unit stock dominates the Central, Back Bay/Beacon Hill, South End, Fenway/ Kenmore, and Allston/Brighton districts, and a significant portion is now owned as condominiums. Private apartments in five or more unit buildings are shown as the white space on the bars in Figure L, and the black space shows the condominiums. In Back Bay/Beacon Hill and the Central districts, some 40 percent of the multi-unit stock has been converted into condominiums, whereas in Fenway/ Kenmore only one eighth has been converted.

Assisted housing is indicated by the crosshatchings at the top of each bar, with dense hatching indicating BHA-owned and less dense hatching indicating other assisted housing. In this regard Roxbury, at 41 percent assisted, and the South End, at 38 percent, lead the other districts. BHA public housing stands out in Charlestown and South Boston, as well as in Jamaica Plain, North Dorchester and the South End. Other assisted housing developments, created for private nonprofit ownership and management, are numerous throughout Roxbury and the South End.

In Allston/Brighton, Jamaica Plain, and the South End, the various stock types are somewhat more evenly distributed than in other districts. The housing mix in the Central district resembles Back Bay/Beacon Hill, but with more assisted housing, as well as more 1-4 unit structures.

The Recent Rise in Housing Costs

Changes in rents and home values are difficult to track over time due to the heterogeneity of the housing stock in so many of the districts. However, these changes are very significant and have affected some districts much more than others, making it important to consider what can be inferred from the available data.

Median contract rent in Boston between 1970 and 1980, according to the U.S. Census, was essentially stable, measured in constant 1980 dollars, rising by only one half a percent, from $191 to $192. Throughout the 1970s, median contract rents rose in locations near downtown, whereas they effectively declined in all of the more outlying districts where demand was slack. Market demand was a more significant determinant of rents in this decade than was rent control.

The BRA/NDEA Household Survey provides data on median gross rents in 1985 for groupings of the planning districts, making rent shifts a rough but useful proxy for

demand change in the various housing markets. According to the U.S. Census, 1980 median gross rent in Boston was $254, or $62 higher than the $192 monthly contract rent, because it included heat and utilities. Expressed in 1985 constant dollars, this 1980 median gross rent of $254 translates into $340 monthly. By 1985, it had risen to $400, a real rise of 3 percent annually above inflation. While not enormous, it contrasts with years prior to 1980.

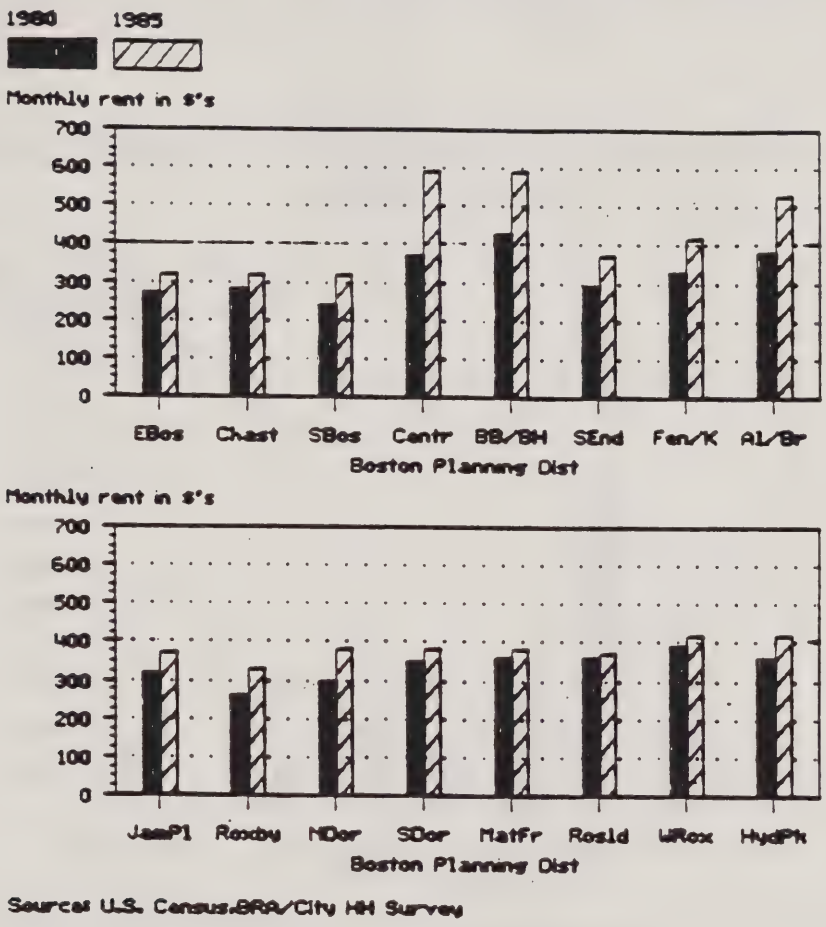
In some neighborhoods, median gross rents increased substantially by 1985, and all districts had experienced increases greater than the inflation rate as measured by the Consumer Price Index. In Central, the increase from $276 in 1980 to $590 in 1985, measured in current dollars, was most dramatic, but Back Bay/Beacon Hill and Allston/Brighton had also experienced sizable increases, raising rents in these districts to levels at which many tenants would either spend over a third of their income on rent, or would need incomes high enough to place them in marginal tax bracket rates of 25 percent or higher.

As previously mentioned, existing federal homeownership tax incentives encouraged households to own condominiums and take advantage of federal income tax deductions for homeownership. The rent threshhold at which tax shelters become financially attractive occurred at a rent of around $400 monthly, since at that level a household had to earn around $500 for housing in order to retain $400 monthly after taxes to pay the rent. Under these tax provisions, many preferred to invest $500 monthly and more in homeownership which, in strong market neighborhoods, promised them substantial appreciation on their equity investment.

Median rents in virtually all the neighborhoods were moving towards this $400 tax shelter threshhold in 1985, and Central, Back Bay/Beacon Hill, and Allston/Brighton, at rents well over $500, were already considerably above it, accounting for the recent large run of condo conversions. Since tax reform of 1986 only reduced these homeownership benefits but did not eliminate them, pressure for condo conversion continues to build on all of Boston's rental stock in attractive locations. See Figure M.

Figure M: Median Gross Rents by Planning Districts, 1980, 1985

(in constant 1985 dollars)



Source: U.S. Census-BRA/City HH Survey

Recent changes in 1-3 family home sales prices were even more spectacular than the rent surges, after the relative price stability of the 1970s.[4] The sales in 1984 showed that the mean citywide value had risen to $80,000, up from $25,000 in 1975. In the main, these increases were the result of renewed confidence in living in Boston, particularly on the part of newcomers seeking locations close to the downtown.

A year later, declining mortgage interest rates as well as unemployment rates further stimulated demand. This resulted in even more pronounced gains. The 1985 sales

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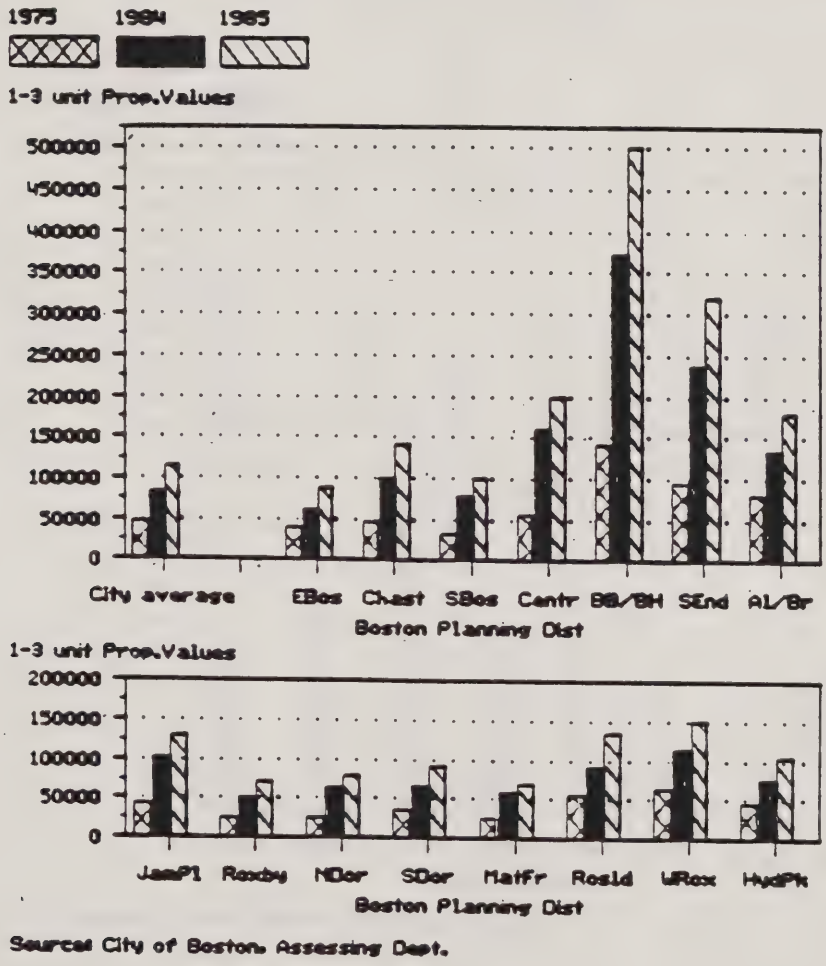
[4] For monitoring changes in home values, the Boston Assessing Department provided the BRA with sales prices for single-family, two, and three unit structures in each of the city's 22 wards from 1975 to 1985. Sales prices for 1, 2, and 3 unit structures could be grouped because in any ward, their means were fairly close. See John Avault and Deborah Oriola, "Revival and Revolution in Boston Home Values," BRA Research Department, November 1986.

show an average increase of 37 percent over the 1984 home sales prices, raising the citywide mean to over $110,000, and the average value for a 1-3 unit property in Back Bay/Beacon Hill, the district with the greatest price escalation, to around one half million dollars. See Figure N.

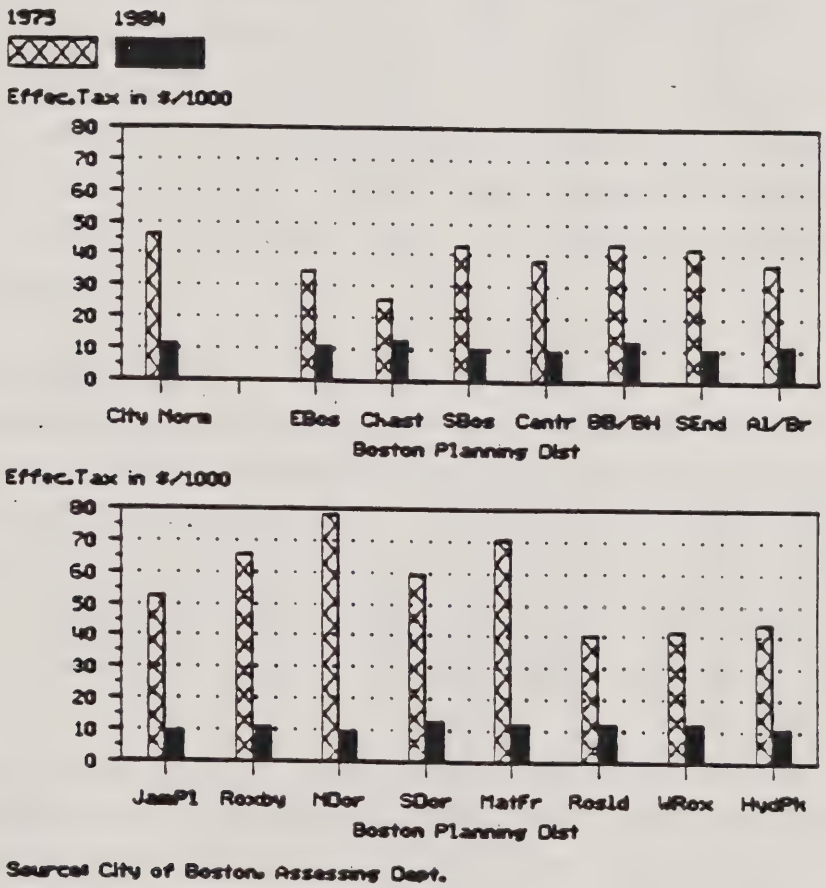
Figure N: Values of Boston's 1-3 Unit Properties by Planning District, 1975-1985
(in current dollars)



Easing of the property tax burden and more equitable tax administration has also helped these properties gain value. Proposition 2 1/2 was passed by voters embracing the idea that annual property taxes should not exceed 2.5 percent of the local property base, or market value of taxable property. During the 1970s, tax appraisals were low in Boston while the tax rate was very high, obscuring differences in actual tax burdens. However, comparing data on specific sales prices and tax bills now available for 1975 and 1984 makes it possible to trace the way rising values reduced the relative tax burden.

In 1974, the citywide average effective tax rate was $46 per thousand of actual market value. Effective rates were generally lower in areas close to downtown. Charlestown was the most favored at $26. North Dorchester, Mattapan/Franklin, and Roxbury, on the other hand, were much more heavily taxed, at rates over $60, due to higher appraisals relative to market value. See Figure O.

Figure O: Effective Tax Rate of Resident-Owned 1-3 Unit Properties, 1975, 1984
(in current dollars)



Source: City of Boston Assessing Dept.

By 1984, after equalization, average effective tax rates in all districts were quite close to one another, as they should be, at about $11 per thousand of actual market value. As property values more than tripled between 1975 and 1984, the effective tax rate dropped to less than a quarter of its former amount. Removal of the past valuation inequities may have given an additional boost to the values of formerly overburdened properties.

Strong market forces, further stimulated by national tax laws, local property equalization, and declining interest rates, encourage the selling of residential properties in order to tap recent gains in equity -- even when these house tenants. Increasingly, these sales values are further inflated by the strong market for condo conversions. Lodgers and tenants on fixed or limited incomes will have difficulty to continue obtaining decent housing services from the many owners now seeking to sell or upgrade their properties.

Rising housing prices in the face of dwindling public assistance also make it difficult to increase the proportion of assisted housing units in the near future. Since so much more affordable housing is still in the private 1-4 unit structures owned outright by small scale owners, effective incentives are vitally needed to discourage sales to new owners and speculators who will use mortgages to finance their purchases and then seek to raise rents in order to pass the resulting purchase and financing costs on to the tenants.

Policy Issues and Implications

There is no consensus among policy analysts on a definition of housing needs, but one measure is the extent of mismatch between housing demand, or what households are willing to pay, and the available supply in the city that is affordable to the households seeking to live there. Affordability typically is measured on a household basis by the ratio between total housing costs and household income, a ratio that by general agreement should not exceed 30 percent, but actually often does.

Housing need goes beyond financial considerations and includes factors such as urban amenities, both cultural and environmental, and access to jobs, particularly downtown jobs, as well as locational preferences.

Estimating housing needs -- the gap between what households are willing to pay and the price of available supply -- thus calls for more than a simple measurement of the requirements for low and moderate-income subsidized housing in a community, but also the various housing types sought by all income groups and types of households, that is, the full range of housing alternatives for every segment of the population, including appropriate higher priced units for which demand is now so strong.

Housing need in any community is a function of many variables, particularly the local population's age structure and rate of change, household size and income, as well as the available stock and dominant tenure patterns. Housing need can be defined

various ways: for a community it may be the presence of households with insufficient income to be able to remain in the community, or a lack of housing with appropriate characteristics, such as size, type, tenure, and special facilities, to match the composition and preferences of the community's households; city-wide housing need reflects a lack of housing that is affordable by a significant segment of the population.

Because of the lag in the collection of housing statistics, it is also difficult to describe need in exact, current numbers. However, the magnitude of the emerging mismatches makes it urgent for Boston to develop policies to redirect and channel the surging market forces towards meeting the new needs to the greatest extent possible. In essence this calls for encouraging new types of future development and allowing more varied adaptive reuses.

Boston needs at least 4,000 more dwelling units a year over the next decade to accommodate population growth and in-migration, plus another 1,000 to 2,000 units annually to replace old and obsolescent housing. Boston's experience since 1980 suggests that perhaps half of these needs could be met through conversion of older structures. Despite recent increases in housing production, Boston still has a production gap estimated to be a couple of thousand dwelling units a year. To reduce housing price inflation and speculation, housing would have to be produced at twice the current rate. To be most effective, this production should also focus on developing new types of housing, as elaborated in "Emerging Housing Alternatives."

Summary of Local Trends Affecting Housing Need

The effect on housing demand by the resurgence of population growth in Boston has been compounded by smaller household size and major inflows of home seekers from suburban areas, who are in general able and willing to pay much more for housing than current residents.

The national age structure of the population is changing significantly as people mature, resulting in more but smaller households and the underutilization of space by those who remain in their dwellings. While some of the latter can no longer afford to move, others want to live independently.

The median age of Boston's population has already increased, and the number of its older population will continue to grow. As people become elderly, they will

most likely seek new ways to remain in the city rather than moving out as in the past, which means that the older age groups in the city will continue to expand.

The younger people forming new households tend to have smaller families, which means that they also will need smaller dwellings. Related to this, as the size of Boston's school age population shrinks, more schools may become available for residential conversion.

Not only have households become smaller in size but their composition has altered. The father/mother/children household typical a generation ago is no longer the primary norm. The proportion of married couples with children is declining, and the percentage of single persons and unrelated people living together has increased to the point where they have become Boston's dominant household type.

Nationally, the number of one and two-person households, and households headed by someone aged 65 or more has increased enormously in recent years, and this pattern will emerge in Boston. Already the numbers of single, separated, divorced, and widowed persons living in Boston have increased faster than the city's overall population.

Despite rising average household incomes and little increase in overall poverty indicators in Boston, the burden of paying for shelter has increased substantially in recent years.

The majority of Boston's housing is in 1-4 family structures, led by the triple-decker. A significant number of units with surplus bedrooms is emerging, units with more bedrooms than required for the current residents. As moving has become much less affordable or desirable, the opportunity to convert these spaces into accessory apartments increasingly confronts Boston's resident-owners.

Meanwhile, the amount of assisted housing falls farther behind the growing need each year. At least half of all renters and one quarter of all homeowners pay more than a third of their income for housing.

Boston's transformation into a highly attractive, revitalizing city also makes its residents more committed to remaining in the city. The strong housing demand

throughout eastern Massachusetts, coupled with an inadequate rate of new construction within the region, severely restricts mobility within the city, drives up housing prices, and encourages speculation.

Thus pressures for change are rapidly rising. As people's housing needs change, many cannot stay in their current dwellings indefinitely. The situation for most tenants is becoming increasingly serious, since the strong market will inevitably encourage converting more units into condominiums which will drive up rents further for the remaining stock.

The response in appropriate types and amount of housing available in Boston has been slow. While larger, 1-4 family homes and apartments still dominate its housing stock, more smaller units are needed. These could be created through additional accessory apartment conversions and more creative forms of shared living. The challenge confronting the city is to understand and anticipate these emerging needs by helping to convert some of the existing stock into acceptable housing alternatives.

Evidence that the current housing supply is mismatched with current needs is evident in many examples:

- the creation of illegal apartments by subdivision of existing units throughout many communities in eastern Massachusetts,

- an increasing number of unrelated people living together, sharing arrangements,

- long waiting lists for the limited assisted housing available,

- elderly living in relative isolation in large single-family houses with insufficient income for necessary purchases, house rich but cash poor,

- the smaller number of child-raising families moving into the city, and

- the rate and prices at which alternative housing like small condos and accessory apartments are quickly purchased or rented when they become available.

A greater variety of housing choices would permit more mobility in the city, and allow residents to change their housing as life cycle needs, or preferences and lifestyles, change. These might include:

- more appropriate alternatives for the elderly who are long-time homeowners, which would free up older, less expensive housing for young couples and growing families,

- smaller units and skilled use of manufactured home components, which would allow older people to continue to live independently in the neighborhood where they have strong ties,

- encouraging home-sharing match-ups, which would provide extra income for older and other homeowners, and permit them to remain where they live now, if they wish to do so,

- allowing more accessory apartments, which would also provide more smaller, affordable rental units so needed in the city;

- congregate housing[5], which would permit those who need more supportive services to remain as independent as possible and still stay within their community,

- small modest housing units, which would provide starter homes for young couples who grew up in Boston or work in the city but cannot afford to buy here now, and

- limited equity cooperatives[6], which would initiate an affordable housing alternative, costing less than homeownership, but providing much greater security than rental tenure in a tight market.

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[5] In congregate housing each unit is self-contained but residents share common areas and possibly eat some meals together. Congregrate housing, shared living and group residences are becoming more widespread and diverse, and in many instances are only new names for housing forms quite familiar to our elders as "rooms to let" and boarding houses.

[6] Limited equity cooperatives, often called mutual housing associations, provide a third alternative to traditional ownership and renting. Residents own shares in the cooperative housing association, which is the long-term owner and manager of the housing. This concept, so successful in Western Europe, provides residents with the security of ownership but costs them as little as renting because each resident bears some responsibility in maintaining the cooperative.

In short, a greater diversity of new housing and adaptive reuse alternatives can help meet the emerging needs of Boston's increasingly varied population, and make more efficient use of the city's current housing stock. Public policy can help more households disadvantaged by Boston's revitalization by assisting them at the margins, helping them to help themselves, for example, through deferred loans and gap financing, to become owners and shareholders, complementing private initiatives. This shift in emphasis away from producing more rental housing dependent upon deep public subsidies is already underway, but the affordability challenge remains formidable.